



# Project Readiness Financing Report

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Project Number: 54377-001  
August 2021

## Nauru: Preparing the Nauru Sustainable Urban Development Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 15 July 2021)

Currency unit – Australian dollar (A\$)

A\$1.00 = \$0.75  
\$1.00 = A\$1.34

## ABBREVIATIONS

ADB – Asian Development Bank  
COVID-19 – coronavirus disease  
DCCNR – Department of Climate Change and National Resilience  
DOF – Department of Finance  
PRF – project readiness financing

## NOTE

In this report, “\$” refers to United States dollars unless otherwise stated.

<b>Vice-President</b>	Ahmed M. Saeed, Operations 2
<b>Director General</b>	Leah C. Gutierrez, Pacific Department (PARD)
<b>Deputy Director General</b>	Emma M. Veve, PARD
<b>Director</b>	Jingmin Huang, Urban Development and Water Division (PAUW), PARD
<b>Team leader</b>	Vivian Castro-Wooldridge, Senior Urban Development Specialist, PAUW, PARD
<b>Team members</b>	Flordeliza Asistin, Financial Management Specialist, Portfolio, Results, and Quality Control Unit (PAOD-PRQ), PARD Herzl Banacia, Operations Assistant, PAUW, PARD Cindy Bryson, Safeguards Specialist, PAOD-PRQ, PARD Ana Theresa Cervantes, Associate Project Analyst, PAUW, PARD Henry Cornwell, Counsel, Office of the General Counsel Ki Fung Kelvin Lam, Health Specialist, Social Sectors and Public Sector Management Division (PASP), PARD Mairi MacRae, Social Development Specialist (Gender and Development), PASP, PARD Inez K. Mikkelsen-Lopez, Health Specialist, PASP, PARD <sup>a</sup> Noelle O'Brien, Principal Climate Change Specialist, Energy Division, PARD Maria Tran, Senior Project Officer, Pacific Liaison and Coordination Office, PARD Jean Williams, Principal Environment Specialist, PAOD-PRQ, PARD <sup>b</sup>
<b>Peer reviewer</b>	Allison Woodruff, Senior Urban Development Specialist, Urban Development, Water Supply and Sanitation Division, Southeast Asia Department

<sup>a</sup> Outposted to the Pacific Liaison and Coordination Office in Sydney, Australia.

<sup>b</sup> Outposted to the Pacific Subregional Office in Suva, Fiji.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54377-001	
<b>Project Name</b>	Preparing the Nauru Sustainable Urban Development Project	<b>Department/Division</b>	PARD/PAUW
<b>Country</b>	Nauru	<b>Executing Agency</b>	Department of Finance
<b>Modality</b>	Project Readiness Financing (Grant) Government of Nauru		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54377-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=54377-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54377-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54377-001-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Water and other urban infrastructure and services</b>	Urban policy, institutional and capacity development		0.95
	Urban sanitation		1.15
	Urban solid waste management		1.10
	Urban water supply		1.80
	<b>Total</b>		<b>5.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Low
✓ Making cities more livable			
✓ Strengthening governance and institutional capacity			
		<b>ADB Financing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
<b>Sustainable Development Goals</b>		<b>Poverty Targeting</b>	
SDG 1.4		Geographic Targeting	✓
SDG 6.1, 6.3, 6.4			
SDG 10.3			
SDG 11.6, 11.a, 11.b			
SDG 12.5			
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	No Safeguards Categorization available.		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>5.00</b>	
Sovereign Project Readiness Financing (Grant): Asian Development Fund		5.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>0.21</b>	
Government		0.21	
<b>Total</b>		<b>5.21</b>	
<b>Currency of ADB Financing:</b> US Dollar			

# NAURU

## PREPARING THE NAURU SUSTAINABLE URBAN DEVELOPMENT PROJECT



### ADB'S DEVELOPING MEMBER COUNTRIES IN THE PACIFIC



- Topside
  - Bottomside
  - Reef
  - ★ National Capital
  - ✈ Airport
  - Road
  - Railway
  - District Boundary
  - International Boundary
- Boundaries are not necessarily authoritative.

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

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## I. PROJECT READINESS FINANCING

### A. Rationale

1. **Country context.** Nauru is the smallest country in the South Pacific Ocean with a land area of 21 square kilometers and 11,550 people.<sup>1</sup> Gross domestic product per capita was \$9,397 in 2019 and about one-fourth of the population lives below the national poverty line.<sup>2</sup> Life expectancy is low for the region at 61.2 years.<sup>3</sup> Nauru experienced negative population growth in the early 2000s but the 2011 Census projected that the population is likely to more than double to 27,260 by 2050.<sup>4</sup> The current population is concentrated along the “Bottomside,” a narrow coastal plain and the “Topside,” the central plateau, is largely uninhabited. Topside has been extensively mined for phosphates leaving the land degraded.

2. **A fragile state.** The Asian Development Bank (ADB) recognizes the fragilities faced by Nauru as a small island developing state and has annually classified it as a fragile and conflict-affected situation since 2008.<sup>5</sup> Nauru has a narrow economic base and relies heavily on (i) the regional migrant processing center; (ii) a diminishing phosphate mining industry; and (iii) the sale of fishing licenses. Climate change is expected to increase the magnitude and frequency of drought, extreme rainfall, coastal erosion, and heat stress. Water security will continue to be a critical issue with fluctuation in rainfall and the possibility of extended droughts.<sup>6</sup> Storm surges and sea level rise are expected to diminish Nauru’s already small land area.

3. **Severe land constraints.** Nauru is facing a severe housing shortage, overcrowded living conditions, food insecurity due to limited arable land, and limited land available for economic development and recreation. About 80% of Nauru is non-habitable and non-arable due to extensive phosphate mining and land rehabilitation is costly. There are strong socio-cultural ties to communal land, which accounts for 95% of total land.<sup>7</sup> There is no ‘whole of island’ urban development plan or dedicated regulatory framework to guide urban planning and development.

4. **Poor quality of basic services.** Water supply, sanitation, and solid waste management services in Nauru are inadequate. The country’s water supply system is highly vulnerable to shocks. There is no reticulation system. Residents rely on private rainwater tanks, desalinated water tanker deliveries, bottled water, or contaminated groundwater.<sup>8</sup> Bottled water is expensive, and groundwater is contaminated by ineffective sanitation systems and dumping of waste.<sup>9</sup> Households rely on on-site sanitation systems. Many existing septic tanks are damaged, leaking, or improperly maintained, leading to groundwater contamination with negative impacts on public health. Septage treatment plants are severely under capacity and raw effluent flows into the groundwater. There are no effective hygiene programs in place and outbreaks of diarrheal illness and typhoid fever still occur.<sup>10</sup> The informal disposal of solid waste through uncontrolled burning, and dumping at sea, on unused land, or in backyard dumpsites is common and impacts on air quality or exacerbates the proliferation of pests. There is little waste segregation, and the

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<sup>1</sup> Nauru Bureau of Statistics. *Population and Housing Census 2019, Mini-Census 2019*. Nauru.

<sup>2</sup> Asian Development Bank (ADB). *Poverty Data: Nauru*. <https://www.adb.org/offices/pacific/poverty/nauru>.

<sup>3</sup> World Health Organization. 2018. *UHC and SDG Country Profile*.

<sup>4</sup> Government of Nauru. 2011. *National Report on Population and Housing: Census 2011*. Nauru.

<sup>5</sup> ADB. 2021. *Fragile and Conflict-Affected Situations and Small Island Developing States Approach*. Manila.

<sup>6</sup> Government of Nauru Department of Commerce, Industry and Environment; Australian Bureau of Meteorology; and Commonwealth Scientific and Industrial Research Organization. 2015. *Current and Future Climate of Nauru*. Nauru.

<sup>7</sup> United Nations Development Programme. 2019. Project “Ridge to Reef” Approach to Protect Biodiversity and Ecosystem Functions in Nauru.

<sup>8</sup> Non-Revenue Water Specialists Pty Ltd. 2017. *Nauru Water and Sanitation Master Plan*.

<sup>9</sup> Government of Nauru. 2019. *Nauru’s National Sustainable Development Strategy 2019–2030*. Nauru.

<sup>10</sup> World Health Organization. 2018. *Nauru-WHO Country Cooperation Strategy 2018–2022*. Suva.

collection and processing system is inadequate. The landfill is inadequately lined and located above an aquifer with its leachate likely contaminating the groundwater. The improper disposal of liquid and solid waste poses a risk to human health, threatens biodiversity, and degrades air and water quality.

5. **Subsector governance.** The Nauru Utilities Corporation is responsible for water supply and has received support from ADB for institutional strengthening.<sup>11</sup> The Nauru Rehabilitation Corporation is responsible for solid waste management. State-owned Eigigu Holdings Corporation and Nauru Utilities Corporation concurrently provide sanitation services but the sanitation sector lacks an institutional framework and regulations that ensure safety across the entire sanitation service chain. Several agencies including those responsible for public health, land management, education and others contribute to successful outcomes from urban infrastructure investments. ADB is currently supporting the government to update the National Water, Sanitation and Hygiene Policy and to establish an interagency steering committee for integrated urban development.

6. **Investment project alignment with government and ADB strategies.** For the first time, the Government of Nauru has requested ADB assistance for water supply and sanitation and pollution control, which is reflected in ADB's country operations business plan for 11 small Pacific island countries, 2021–2023.<sup>12</sup> The request aligns with Nauru's National Sustainable Development Strategy 2019–2030 (footnote 9) and the Nauru Integrated Infrastructure Strategic Plan.<sup>13</sup> The request aligns with ADB's Strategy 2030, specifically the differentiated approach for fragile and conflict-affected situations and small island developing states and operational priorities on poverty and inequality, climate change, disaster resilience and the environment, city livability, and governance. The proposed project aligns with the strategic priorities of ADB's Pacific Approach, 2021–2025 to decrease vulnerability to shocks and strengthen service delivery.<sup>14</sup>

7. **Need for project readiness financing.** A project readiness financing (PRF) project is required given the weak capacity in the implementing agency (Department of Climate Change and National Resilience [DCCNR]), the need to ensure an implementation ready project for the efficient use of finance given resource constraints, and the need to build broad buy-in and gain community support for the project. The government is exploring institutional arrangements to strengthen coordination and improve service delivery. The PRF will create an enabling environment for the subsectors and the ensuing project and will help achieve a high-level of readiness of the ensuing project.

## B. Outputs and Activities

8. **Output 1: Enabling environment for the ensuing project created.** Output 1 will (i) recruit consultants to establish and strengthen a project management unit within the DCCNR; (ii) design and implement a community outreach campaign to foster understanding and broad support, and ensure a participatory approach; (iii) train the executing agency (Department of Finance [DOF]), DCCNR, and the project management unit in safeguards, contract administration, financial management, procurement and gender; (iv) develop a road map for building urban planning capacity; and (v) develop a whole of island urban development plan and strategy building on coastal risk analysis.

<sup>11</sup> ADB. [Nauru: Solar Power Development Project](#); and ADB. [Nauru: Electricity Supply Security and Sustainability Project](#).

<sup>12</sup> ADB. 2020. *Country Operations Business Plan: Eleven Small Pacific Island Countries, 2021–2023*. Manila.

<sup>13</sup> Government of Nauru. 2019. *Nauru Integrated Infrastructure Strategic Plan*. Nauru.

<sup>14</sup> ADB. 2021. [Pacific Approach, 2021–2025](#). Manila.



9. **Output 2: Opportunities for urban services optimization, integration and sustainability agreed.** Output 2 will (i) review or support the development of strategic documents for water supply, sanitation, and solid waste management; (ii) support sector coordination; (iii) review institutional, regulatory, and tariff frameworks and make recommendations; (iv) support planning and early implementation of agreed reforms; (v) initiate capacity building of service delivery staff; and (vi) develop the institutional strengthening program for the ensuing project. Given Nauru's small size, the output will also prioritize subprojects; identify opportunities to promote a circular economy; and for shared facilities, systems or functions between services to promote efficient use of resources. Output 2 will help ensure that effective institutional arrangements and regulations are in place for operation and maintenance.

10. **Output 3: Project scope identified, project readiness achieved, and advance procurement activities for the ensuing project completed.** Output 3 will (i) identify the scope of the proposed project based on strategic plans; (ii) conduct feasibility studies for the proposed investments; (iii) undertake the required due diligence; (iv) design the ensuing project's water, sanitation, and hygiene program and gender action plan; (v) support strategic procurement planning; (vi) complete detailed engineering designs and prepare bidding documents; and (vii) support advance procurement actions for the ensuing project.

### C. Ensuing Project

11. The proposed Nauru Sustainable Urban Development Project will increase access, quality, and safety of urban services for about 2,150 households. Outputs may include (i) reliable, equitable and resilient water supply services provided; (ii) safe, inclusive, and effective sanitation services provided; (iii) safe, reliable, and integrated solid waste services provided; (iv) improved hygiene behavior sustained; (v) urban planning system improved; and (vi) financial and operational capacity of service providers strengthened. For water supply, the PRF will assess the feasibility of introducing metered, piped water supply and identify opportunities for greater sustainability, reliability, and energy efficiency. For sanitation, the PRF will evaluate the existing business chain and determine the objectives for institutional strengthening and the investment required for an effective and safe on-site system. For solid waste, the PRF will identify measures to reduce waste volumes and longer-term measures to promote reuse and recycling. The PRF will identify measures to build climate change resilience and reflect these in the proposed urban planning system. Community-driven development approaches will be explored. The PRF will also support policy dialogue on tariffs and explore the potential for private sector participation in service delivery. The ensuing project is targeted for approval in 2024 with proposed financing estimated at \$20 million from the Asian Development Fund grant. The phasing of projects may be explored.

### D. Cost Estimates and Financing Arrangements

12. The PRF is estimated to cost \$5.21 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual.<sup>15</sup>

13. The government has requested a grant not exceeding \$5,000,000 from ADB's Special Funds resources (Asian Development Fund) to help finance project preparation and support procurement for the ensuing project investments. The summary financing plan is in Table 2. ADB will finance the expenditures for consulting services, equipment, and recurrent costs. The government will contribute \$210,000 toward the costs of the PRF through the exemption of taxes and duties. The government will finance any shortfall in the financing of the PRF.

<sup>15</sup> Project Administration Manual (accessible from the list of linked documents in [Appendix 1](#)).

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Output 1: Enabling environment for the ensuing project created	1.11
2. Output 2: Opportunities for urban services optimization, integration and sustainability agreed	1.03
3. Output 3: Project scope identified, project readiness achieved, and advance procurement activities for the ensuing project completed	2.76
<b>Subtotal (A)</b>	<b>4.90</b>
<b>B. Contingencies</b>	<b>0.31</b>
<b>Total (A+B)</b>	<b>5.21</b>

<sup>a</sup> Includes taxes and duties of \$0.21 million. Such amount does not represent an excessive share of the project cost. The government will finance taxes and duties of \$0.21 million through tax exemption.

<sup>b</sup> In prices as of April 2021.

Source: Asian Development Bank estimates.

**Table 2: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Special Funds resources (Asian Development Fund grant)	5.00	96.0
Government	0.21	4.0
<b>Total</b>	<b>5.21</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

## E. Implementation Arrangements

14. The implementation arrangements are summarized in Table 3 and described in detail in the PRF project administration manual (footnote 15). Procurement will follow the ADB Procurement Policy (2017, as amended from time to time), the Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and associated staff instructions. An implementation period of more than 4 years should accommodate potential delays related to the coronavirus disease (COVID-19) pandemic.

**Table 3: Implementation Arrangements for Project Readiness Financing**

Aspects	Arrangements		
PRF implementation period	September 2021–December 2025		
Estimated PRF completion date	31 December 2025		
Estimated grant closing date	30 June 2026		
Steering Committee	Chair: Secretary, DCCNR; Co-Chair: Secretary, DCIE Secretaries from DOF, DHA, DOE, DOID, DOLS, DPH, DPPES, NDRM, CEOs of EHC, NRC, NUC; Civil society representatives from CBOs, NCC, NPBSO; PMU Head (member secretary)		
Management			
(i) Executing agency	Department of Finance		
(ii) Implementing agency	Department of Climate Change and National Resilience		
Procurement	Request for quotations	1 contract	\$0.05 million
Consulting services	Quality- and cost-based selection	Output-based contracts (4 contracts)	\$3.08 million
	Individual consultant selections	110 person-months	\$1.18 million
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time), and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank; CBO = community-based organization; CEO = chief executive officer; DCCNR = Department of Climate Change and National Resilience; DCIE = Department of Commerce, Industry and Environment; DHA = Department of Home Affairs; DOE = Department of Education; DOF = Department of Finance;

DOID = Department of Infrastructure Development; DOLS = Department of Lands and Survey; DPH = Department of Public Health; DPPES = Department of Police, Prison and Emergency Services; EHC = Eigigu Holdings Corporation; NCC = Nauru Chamber of Commerce; NDRM = National Disaster Risk Management Office; NPBSO = Nauru Private Business Sector Organization, NRC = Nauru Rehabilitation Corporation, NUC = Nauru Utilities Corporation; PMU = project management unit; PRF = project readiness financing.  
Source: Asian Development Bank.

15. DOF has delegated consultant selection for firms and international consultants (individuals) to ADB. DCCNR will undertake consultant selection for national consultants (individuals). A variation to the design consultant contract may be considered in the future for construction supervision to be financed by the ensuing grant. Technical proposals of the consulting firms shall explain how the work will be carried out effectively despite possible enduring COVID-19 pandemic-related travel restrictions.

## II. DUE DILIGENCE

16. **Technical.** The feasibility studies will provide the design approach and principles for detailed engineering designs and surveys to be delivered under the PRF. A lifecycle cost analysis will be used. A climate risk and vulnerability assessment will be prepared with ADB assistance, and coastal risk data will guide the design of climate change-resilient infrastructure and non-physical interventions, including the urban planning approach and the urban development plan.

17. **Governance.** A financial management assessment was conducted for DOF as the executing agency and DCCNR as the implementing agency. The pre-mitigation financial management risk is substantial and will be mitigated through the recruitment of a project accountant, who will be trained on ADB's disbursements, financial reporting and auditing requirements, and independent biannual fiduciary reviews. The overall country procurement risk is considered high due to the low procurement capacity in country and lack of compliance with the legislative framework for public procurement.<sup>16</sup> Corruption risks are further mitigated with the delegation of most consultant selection to ADB and the establishment of a project steering committee.

18. **Safeguards and gender.** Since the proposed activities consist only of consulting services and purchase of a project vehicle, activities have not been categorized in accordance with ADB's Safeguard Policy Statement (2009). The safeguard categories for the ensuing project will be confirmed during the due diligence (a PRF activity) but are expected to be category B for environment and involuntary resettlement, and category C for indigenous peoples. The ensuing project is expected to alleviate women's domestic burdens through improved services and the expected gender category is effective gender mainstreaming.

## III. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the grant not exceeding \$5,000,000 to Nauru from the Special Funds resources (Asian Development Fund) of the Asian Development Bank, for Preparing the Nauru Sustainable Urban Development Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement; and hereby reports this action to the Board.

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<sup>16</sup> ADB. 2021. Forthcoming. *Nauru Procurement Risk Assessment Report*. Manila.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=54377-001-PRF>

1. Grant Agreement
2. Project Administration Manual